

**BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

In the Matter of:)
Dominion Energy South Carolina, Inc.'s)
Request for Approval of New Natural Gas)
Energy Efficiency Programs)

Docket No. 2021-361-G

**SURREBUTTAL TESTIMONY
OF
DAVID E. DISMUKES, PH.D.
ON BEHALF OF
SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS**

April 18, 2021

1 **I. INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is David E. Dismukes. My business address is 5800 One Perkins Place
4 Drive, Suite 5-F, Baton Rouge, Louisiana, 70808.

5 **Q. ARE YOU THE SAME DAVID E. DISMUKES WHO FILED DIRECT TESTIMONY**
6 **IN THE CURRENT PROCEEDING ON APRIL 4, 2022?**

7 A. Yes, I am.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. The purpose of my Surrebuttal Testimony is to respond to elements of the Rebuttal
10 Testimony of Sheryl K. Shelton on the behalf of Dominion Energy South Carolina
11 ("DESC" or "Company").

12 **Q. HAS THE COMPANY'S REBUTTAL CHANGED ANY OF YOUR EARLIER**
13 **RECOMMENDATIONS?**

14 A No, I continue to recommend that the Public Service Commission of South
15 Carolina ("Commission") reject the Company's proposed shared savings incentive
16 ("SSI"). The Company's argument that it requires an estimated financial incentive
17 of \$5,373 per year in order to pursue energy efficiency should be rejected by the
18 Commission. The cost recovery structure in place in South Carolina, including
19 recovery of lost revenues through the Company's Rate Stabilization Act ("RSA"),
20 provides adequate incentive for the Company to pursue energy efficiency
21 opportunities. Furthermore, the Commission should not ignore intangible
22 incentives the utility will receive from its pursuit of energy efficiency in the form of
23 enhanced public goodwill and other comparable benefits.

1 **Q. DO YOU STILL SUPPORT THE ALTERNATIVE RECOMMENDATION**
2 **PROVIDED IN YOUR DIRECT TESTIMONY?**

3 A. Yes. I believe that SCC § 58-37-20 requires that the Commission ensure that utility
4 net income is not negatively affected by the implementation of demand-side
5 management (“DSM”) programs and provide utilities an opportunity to earn a
6 reasonable rate of return on investment. I believe that the proposed DSM Rider,
7 even exclusive of the proposed SSI, provides sufficient financial incentives for a
8 utility to pursue DSM. However, if the Commission believes that SCC §58-37-20
9 requires it to implement an additional financial incentive as part of a DSM Rider, I
10 have provided an alternative recommendation that the Commission modify the
11 proposed mechanism to tie the mechanism’s financial incentives to the Company’s
12 performance in achieving energy efficiency energy savings as confirmed through
13 an evaluation, measurement and verification (“EM&V”) process.

14 **II. DISCUSSION**

15 **Q. PLEASE SUMMARIZE THE COMPANY’S REBUTTAL TESTIMONY**
16 **DISCUSSION OF THE SSI.**

17 A. The Company argues that SCC § 58-37-20 prohibits the Commission from
18 rejecting the proposed SSI since it is a “statutorily-mandated payment.”¹ The
19 Company also rejects the concept of a performance-based SSI. The Company
20 states that structuring the SSI with performance-based criteria “actually penalizes
21 the Company twice,” first through a lower initial incentive and again through a

¹ Rebuttal Testimony of Sheryl K. Shelton at 8:15 to 9:1.

1 reduction in the allowed percentage of SSI.”² The Company argues that the “SSI
2 should provide a reasonable mechanism to mitigate the potentially negative
3 financial impacts and the risks to the utility associated with reduced sales
4 experienced from an effective DSM program.”³

5 **Q. IS THE PROPOSED SSI ADDRESSED IN SOUTH CAROLINA STATUTES?**

6 A. No. I am not a lawyer, however, as an expert in utility regulatory policy, I am often
7 called upon to evaluate certain legal and regulatory authorities, including statutes,
8 rules, regulations, and state utility commission orders. The Company references
9 SCC § 58-37-20 as “a statutorily-mandated payment that a utility must receive to
10 incentivize utility investment in cost-effective energy efficient technologies and
11 energy conservation programs.”⁴ However, the SSI structure or any incentive in
12 the form of a payment is not addressed in the referenced statute, let alone
13 “mandated.”

14 **Q. PLEASE EXPLAIN THE SCC § 58-37-20 REQUIREMENTS ON THIS MATTER.**

15 A. SCC § 58-37-20 requires the Commission to establish procedures that provide
16 cost recovery and incentives such that DSM investments are “at least as financially
17 attractive as construction of new generating facilities.”⁵

18 **SECTION 58-37-20** Public Service Commission; adoption of
19 procedures encouraging energy efficiency and conservation.

20 The South Carolina Public Service Commission may adopt
21 procedures that encourage electrical utilities and public utilities
22 providing gas services subject to the jurisdiction of the commission
23 to invest in cost-effective energy efficient technologies and energy
24 conservation programs. If adopted, these procedures must: provide

² *Id.*, at 9:6-11.

³ *Id.*, at 9:11-13.

⁴ *Id.*, at 8:19 to 9:1.

⁵ SCC §58-37-20.

incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented. For purposes of this section only, the term "demand-side activity" means a program conducted by an electrical utility or public utility providing gas services for the reduction or more efficient use of energy requirements of the utility or its customers including, but not limited to, utility transmission and distribution system efficiency, customer conservation and efficiency, load management, cogeneration, and renewable energy technologies.⁶

Q. WHAT CONCERNS DOES THE COMPANY ARGUE THE SSI SHOULD ADDRESS?

A. The Company states that any adopted SSI should address two concerns: (1) the potential negative financial risks from implementing DSM programs, and (2) risks associated with lost revenues.

The SSI should provide a reasonable mechanism to mitigate the potentially negative financial impacts and the risks to the utility associated with reduced sales experienced from an effective DSM program.⁷

Q. ARE THERE NEGATIVE FINANCIAL IMPACTS ASSOCIATED WITH THE PROMOTION OF DSM WITHOUT THE IMPLEMENTATION OF THE PROPOSED SSI?

⁶ SCC §58-37-20 (emphasis added).

⁷ Rebuttal Testimony of Sheryl K. Shelton at 9:11-13.

1 A. No, and it appears the Company may have questions about this as well since its
2 own argument includes a qualifier (“potentially”) in claiming there were negative
3 financial impacts from the promotion of DSM. As I laid out in my Direct Testimony,
4 recovery of DSM expenses through a tracker itself already provides an incentive
5 to promote DSM because it allows for near contemporaneous cost recovery, on an
6 actual dollar-for-dollar basis and as an actual year-to-year expense, something
7 that would not arise if these DSM costs were recovered through traditional base
8 rates which are less frequently updated and estimated on a “typical” basis.⁸ A
9 DSM tracker of this sort also significantly reduces financial risks when compared
10 to traditional cost recovery methods in a base rate case.

11 **Q. ARE THERE ANY RISKS TO THE COMPANY ASSOCIATED WITH REDUCED**
12 **SALES FROM EFFECTIVE DSM PROGRAMS?**

13 A. No. The workings of the RSA also hold the Company harmless from any potential
14 lost revenues that may arise from DSM programs, an opportunity that even
15 traditional “supply side” resources are not afforded.

16 **Q. DOES THE RSA COMPENSATE THE COMPANY FOR LOST EARNINGS**
17 **POTENTIAL ON GENERATION AND OTHER SUPPLY SIDE RESOURCES**
18 **CAUSED BY PROMOTION OF DSM PROGRAMS?**

19 A. Yes. The RSA as laid out in statute trues up rates to the Company’s full revenue
20 requirement from its last rate case filing⁹ due to changes in Company revenues

⁸ Direct Testimony of David E. Dismukes at 9:18 to 10:2.

⁹ See, SCC § 58-5-410; note that the Natural Gas Rate Stabilization Act requires that the Commission have issued an order approving rates from said rate case no more than five years prior to a requested RSA request.

1 and expenses between rate cases.¹⁰ This revenue requirement includes a fair rate
2 of return on the Company's generation and other supply side resources as
3 established by the Commission and indeed the RSA establishes a symmetric 50
4 basis point deadband on utility earnings in calculations of RSA adjustments.¹¹ This
5 means that the Company will be reimbursed for any reductions to the financial
6 earnings it would have received on these generation and other supply side
7 resources that may arise from DSM programs.

8 **Q. DOES THE COMPANY NEED AN SSI TO PROMOTE ENERGY EFFICIENCY?**

9 A. No. The Company claims that "the SSI operates to incent the utility to create and
10 offer DSM programs."¹² As I noted above, the current DSM tracker allows the
11 Company a risk-free opportunity to recover its investments as well as any lost
12 revenues that may arise from promoting efficiency measures. The fact that the
13 Company's proposed incentive is only estimated to be \$5,373¹³ per year
14 underscores the limited magnitude of any required incentive.

15 **Q. DOES INVESTMENT IN DSM PROGRAMS PRODUCE OTHER BENEFITS FOR**
16 **THE UTILITY?**

17 A. Yes. The Commission should recognize that investment in DSM allows the
18 Company to show that it is a good corporate citizen. The Company, for example,
19 proposes to expand its existing electric Neighborhood Energy Efficiency Program
20 ("NEEP") to accommodate the Company's natural gas customers.¹⁴ NEEP

¹⁰ SCC §§ 58-5-410 and 58-5-465.

¹¹ See § 58-5-440.

¹² Rebuttal Testimony of Sheryl K. Shelton at 10:8-9.

¹³ Direct Testimony of Sheryl K. Shelton at 18:11-12.

¹⁴ *Id.*, at 10:3-4.

1 provides low-income customers with energy efficiency education, an in-home
2 energy assessment, and direct installation of low-cost efficiency measures
3 delivered via direct customer interactions.¹⁵ Programs such as these, while
4 delivering important services to low-income customers in need of assistance,
5 provide the additional benefit of allowing the Company to show that it is a positive
6 force aiding the community it serves.

7 **Q. DO YOU AGREE THAT ATTACHING PERFORMANCE INCENTIVES TO THE**
8 **PROPOSED SSI WOULD RESULT IN A “DOUBLE PENALTY”?**

9 A. No. The Company claims that structuring the SSI with performance-based criteria
10 would penalize the Company through a lower initial incentive and again through a
11 reduction in the percentage of recovery.¹⁶ It is unclear from the Company's
12 testimony why it believes that attaching performance-based criteria to the
13 proposed SSI would penalize the Company with a lower incentive rate, but this is
14 simply not the case. The SSI included as part of my alternative proposal would
15 reduce the allowed incentive in cases where the Company underperforms, thus
16 incentivizing the Company to achieve future energy savings through the
17 implementation of its DSM. There simply are no “penalties” afforded under this
18 alternative recommendation, only lower (yet still positive) incentives if the
19 Company's performance in delivering efficiency benefits is sub-par.

20 **Q. DO YOU BELIEVE IT IS IMPORTANT FOR ANY SSI, IF ADOPTED, TO**
21 **INCLUDE A PERFORMANCE-BASED STRUCTURE?**

¹⁵ *Id.*, at 12:14-21.

¹⁶ Rebuttal Testimony of Sheryl K. Shelton at 9:6-9.

1 A. Yes. As stated in SCC § 58-37-20, the purpose of DSM procedures should be to
2 encourage energy efficiency and conservation,¹⁷ not energy efficiency
3 expenditures and investment. The Company's SSI, however, offers incentives
4 based on expenditures: the Company's proposed incentives are not specifically
5 tied to achieving measured savings which is simply not consistent with SCC § 58-
6 37-20.

7 **Q. HAS THE COMPANY STATED IT IS WILLING TO ACCEPT ANY OF THE**
8 **INTERVENING PARTIES' PROPOSALS?**

9 A. Yes, the Company states that it is willing to accept the recommendation of the
10 Office of Regulatory Staff ("ORS") that the incentive rate associated with the SSI
11 be set at the return on equity ("ROE") rate as determined in the Company's
12 upcoming general natural gas rate case.¹⁸

13 **Q. DO YOU AGREE WITH THIS PROPOSAL?**

14 A. No, I continue to believe that, if the Commission adopts an incentive mechanism,
15 it be tied to the target rate of return ("ROR") approved by the Commission. While
16 the Company is correct that SSI incentive and its target financial compensation are
17 not equivalent and compensate the utility for different things,¹⁹ SCC § 58-37-20
18 requires that the Commission adopt procedures that make DSM investments as
19 financially attractive as supply-side investments. The allowed earnings for a utility
20 on rate base investments is based on target ROR rates determined in general rate
21 cases and not ROE rates. This indicates that the Commission's target ROR is the

¹⁷ SCC § 58-37-20.

¹⁸ Rebuttal Testimony of Sheryl K. Shelton at 10:13-16.

¹⁹ *Id.*, at 10:5-8.

1 more appropriate rate to utilize if the Commission choses to adopt an incentive
2 mechanism.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY FILED ON APRIL 18, 2022?**

4 **A. Yes.**